RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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May 6, 1998 **LETTER 1251**

CRITICAL TEST: The D-J Industrial bull market high was **9184.94**, recorded on April 21. The Transport bull market high was **3683.02**, hit on April 16. If the bull's still in command, those two highs will be bettered. On the other hand, if the bear is about to sneak in, it will be a long time before **both** Averages see new highs again.

The market was severely over-sold on April 27. In a bull market, an over-sold condition is synonymous with a bottom. In a bear market, an over-sold condition represents a respite (and a rally) before the market starts down again.

On the decline to the April 29 over-sold area, the Transports suffered considerably more damage than did the Dow. For this reason, on this recovery I would expect the Transports to be the lagger. It is well to remember, for a re-confirmation of the bull market **BOTH** Averages must advance to new highs.

Market veterans are well aware that this market has broken all the time-honored valuation rules. "When the yield on the Dow falls below 3%, the market is at a top." Forget it, that old rule stopped working in 1992. "Historically, record earnings on the S&P usually rate a price/earnings ratio of around 12." Are you kidding, the P/E ratio for the S&P is now around 28. "The Dow is expensive when it sells at substantially above 2 times book value." Yeah, right, only problem is that the Dow's now selling at 6.4 times book.

Old-timers knew the market was expensive, but who cares what they think? This is a new era -- a computer-driven, digital-age, new era. While Japan and Asia are falling apart, while Europe is grappling with 12% unemployment, while most of the globe is still trying to figure out what Windows 95 is all about, the US has graduated to be (like the director of "Titanic") the "king of the world."

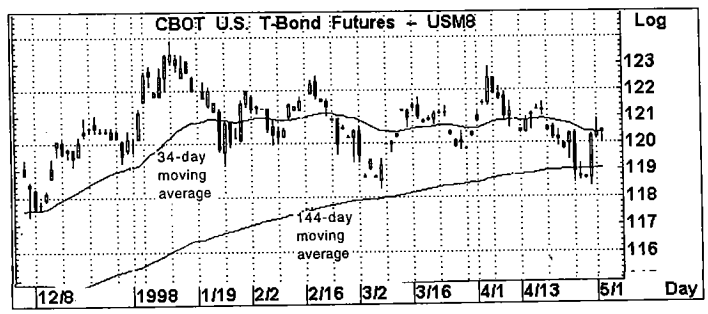
PRICE ACTION: We've had another whirlwind correction with the market having become very over-sold on April 29. Technical damage to the S&P and the Dow was minimal, but damage to the Transportation Average was more severe. In fact, Transports are now below where they were in mid-February, and again I suggest that subscribers keep their eye on the Transports.

The rebound is now well underway, and with thousands of hedge funds playing the game and with thousands of mutual funds bound to remain fully invested, action that used to take a week or so is now compressed into two or three hours of time.

Bond action is critical. The stock market has really been trading off the bonds, point for point, rally for rally, decline for decline. Last week the June bond futures plunged temporarily below their 144-day moving average, but on April 30 the bond futures surged back above the 144-day MA. The low closing for the bond futures was 118 23/32nds (April 29) and it's important that this low holds. Personally, I'm thinking that we've seen the low for the bonds. Note that the 34-day MA has been holding bullishly well above the 144-day MA. The bond action is a definite plus for the stock market.

Note: If the stock market is in the process of building a top, I believe that it would soon impact on business and consumer sales.

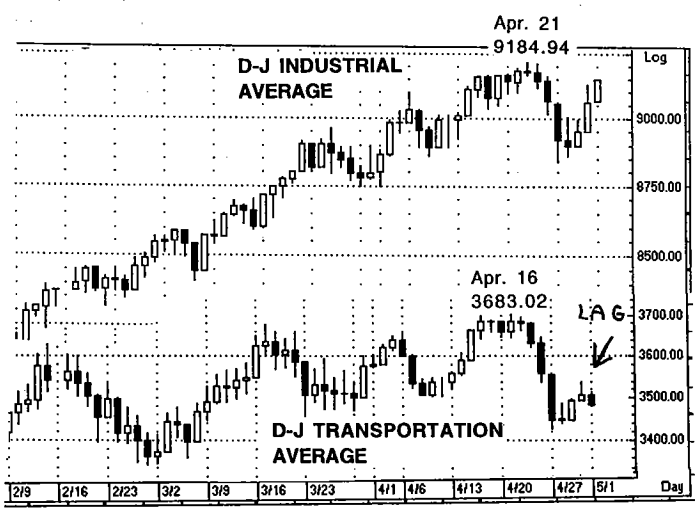
Apr. 24 DJIA 9064.62; PTI 5340; A-D Ratio +11.88
May 1 DJIA 9147.07; PTI 5347; A-D Ratio +12.25
Dow Yield: 1.54%; Dow Price/Earnings: 23.5
Dow 144-day MA: 8354; Dow 34-day MA: 8933
Dow Times Book Value: 6.46; PTI 89-day MA: 5269
Percentage of Undervalued Blue-chips: 2%
Gold 34-day MA: 307

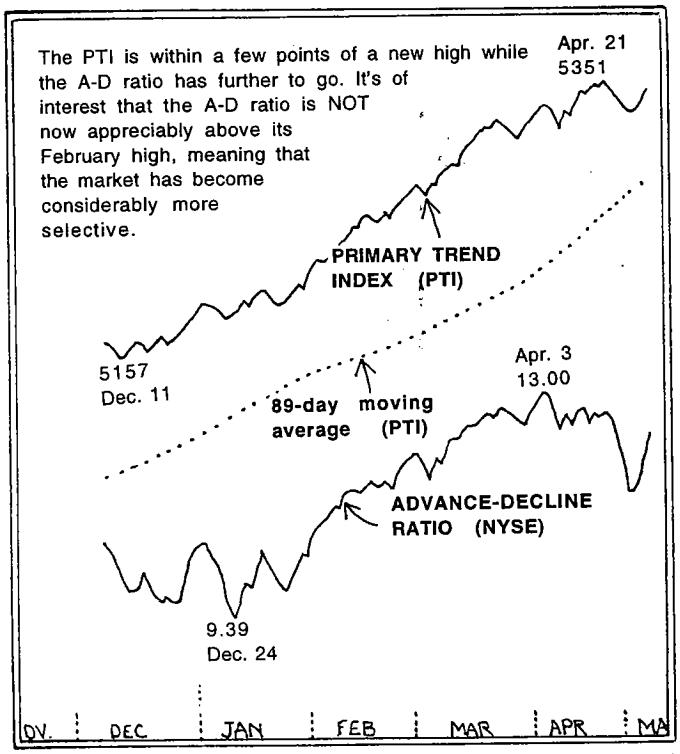


If that happens, then I believe that money would move out of stocks (which currently provide almost no income) and into high-grade bonds.

Furthermore, and few people are thinking this way, if the stock market does lapse into a trading range, there will be subtle pressure on stocks. With average stock yields in the 1.4% area, it's expensive to sit with stocks unless they are providing capital gains. Analysts have literally ignored low yields; low yields are acceptable as long as stocks are climbing. But stocks that have ceased going up and which also offer little or no income -- that's another story.

ECONOMICS: Meanwhile, the US economy continues in high gear, fed by the greatest growth in the money supply since the mid-'80s. M-3, the broad measure of money supply, is up 9.3% for the year, up 9.8% for the most recent six months and (gulp) up 11% over the most recent three months. Those are inflationary numbers, but with Japan and most of Asia exporting deflation to the US, where's the worry? Mr. Greenspan has been counting on Asia to put pressure on US inflation, but as I see it, the jury is still out on whether Greenspan's hopes will materialize.




The PTI is within a few points of a new high while the A-D ratio has further to go. It's of interest that the A-D ratio is NOT now appreciably above its February high, meaning that the market has become considerably more selective.
Apr. 21
5351
PRIMARY TREND INDEX (PTI)
5157
Dec. 11
89-day moving average (PTI)
Apr. 3
13.00
ADVANCE-DECLINE RATIO (NYSE)
9.39
Dec. 24
DEC
JAN
FEB
MAR
APR

Greenspan is no fool; he knows this market, on a valuation basis, is out of sight on the upside (remember, Greenspan thought the market was "irrational" back in December of 1996 when the Dow was 6500). Greenspan also knows that if the Fed raises rates there is a danger that the market could "fall out of bed." Greenspan knows that the Fed would be blamed for any costly market collapse that was triggered by a rate increase (particularly in the face of all the talk about there being "no inflation"). So I think the Fed chief would like to "do the talk but avoid the walk," the walk being an actual rate increase (the first talk-warning did come on April 27 via the *WSJ*).

THE PICTURE: In the last two Letters I wrote about the "new method" of valuing the stock market, namely **extrapolating** earnings-growth into the future and simply adjusting that figure for interest rates. On this technique almost any future price for the Dow or the S&P could be forecast. And, of course, that's the system that many of the super-bulls have been using as they predicted a 10,000 Dow by the end of this year or Dow 12,000 by mid-1999. A few bold souls have even forecast Dow 15,000 by the year 2000. Right or wrong, it makes exciting financial "garbage-gab" for newspapers and magazines.

Since current valuations are so far above anything ever seen before in stock market history, I've elected, during the past two or three years, to place the **most emphasis on price action** rather than on valuations. The reason is obvious -- since 1990 valuation analysis (although certainly intelligent and rational) just hasn't worked.

This is the reason I've placed so much emphasis on my Primary Trend Index (PTI). The PTI deals with the daily rise or decline of eight "action of the market" indicators, and I compute the daily plurality. Neither valuations nor sentiment enter the PTI equation. History doesn't influence the PTI. Only price action does.

Interesting Seasonal: Over the years the real money in the stock market has been made during the six months leading up to mid-April. Conversely, most of the problems and losses for the market have come in the six months following mid-April. **Fact:** If over the years you had bought or held stocks only during the period of mid-April to mid-October you would have very little to show for your efforts. **Memorandum:** We're in the mid-April to October period now.

INVESTMENT POSITION: "Big Money" (i.e., large, wealthy investors) sets the trend of the market, and once the trend is SET, the public will usually join the parade, thereby accelerating the trend. In other words, the public will ultimately get with the trend. But it's at the major turns when the public is most wrong.

Big money didn't get to be big money by being stupid -- here's how big money thinks and operates: big money is interested in **safety first, income second, price appreciation third.**

Consider this -- big money has already enjoyed a massive amount of appreciation -- big money has been having a picnic since 1990. Big money knows that it now costs $63 to buy $1 of S&P dividends. Big money is well aware that this is the most expensive $1 of S&P dividends in stock market history. At the same time big money knows that it can buy $1 of guaranteed income for $16.60. How does it do that? Easy, it does that simply by buying Treasury bonds or notes (and by the way, Treasury securities are free of state taxes).

Worried about rising rates and maybe a declining stock market? No problem, just buy three-year T-notes, or, if you don't feel comfortable with three-year maturities, just buy 91-day T-bills or six-month T-bills.

In this business there are three rules that I always keep in mind. **(1) There's always an alternative to any investment. (2) Don't stress yourself if you miss a move, the market is always there. (3) Investing isn't a 60-yard dash, it's a marathon.**

There's a fourth rule or observation that not many people realize and it's this: **(4) Compounding is the royal road to riches.** In a bull market, common stocks represent a way of beating slow, methodical compounding via debt securities. But in a trendless market or a bear market, debt securities (bonds, notes, bills) represent the ideal method of compounding.

Finally, consider this: in medicine the classic warning is, "First, do no harm." In investing the classic warning is, "First, take no large loss." Nothing is more demoralizing and harder on your assets than a large loss. Veteran subscribers who have lived through 1973-74 or 1987 know what I mean.

An article in the April 30 *WSJ* headlines, "Wall Street Is Decidedly Short on Cash," and that nine of 13 brokerage firms surveyed recommended holding 5% or less of cash. Personally, I have a sneaking suspicion that cash isn't a bad thing to have now, and the bonds appear to have bottomed out.

NOTES & QUOTES: I'm receiving inquiries from subscribers as follows: "I'm worried: T-bills, T-notes, etc. are now simply book-keeping entries in the Fed's computers. What happens if Y2K materializes and the Fed's computers crash? What happens to my money?" Russell answer: I'm betting that if there are three government agencies that will be ready, they will be the Fed, the Treasury and well, I think the IRS. All three are where the government takes in money, and that's where the greatest emphasis on "fixing" the computers will be concentrated.

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China's yuan may be in trouble. About a month ago the yuan began to weaken, but the tell-tale weakness took place on Shenzhen's black market. On the black market, customers are offered a 6% premium over the official rate when exchanging Hong Kong dollars for yuan. The news is important, because of the bearish implication if China is forced to officially devalue its currency. If China devalues, such action would set off competitive devaluations all across Asia. Those who want to monitor the

Chinese stock market might watch the China Fund (CHN). From a high above 17 in September, the stock is now just above 10.

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Signs of the Times: The junk bond market is red hot. Writes the *WSJ* (April 24), "The frenzy in the junk-bond market reached a new pitch when the upstart telecommunications company, Level 3 Communications, sold $2 billion in junk bonds, equaling the largest corporate junk-bond deal so far in the 1990s . . . As of a week ago, $53.7 billion of junk bonds had been sold this year, almost double the comparable period of 1997" . . . Diners are so desperate to get into top NY restaurants that they are lying and cheating to get tables. Some are calling saying they are the Paul Newman or Bill Cosby party (same name, different people). Says Serio Maccioni, owner of Le Cirque 2000, "Many times people come up to me and ask for a reservation claiming that they are a dear friend of the owner, Serio. What am I going to say, 'You are a liar?' No, sometimes I put on my glasses and say, 'Oh yes, I'm Serio, I didn't recognize you.'" Says Tim Zagat, publisher of Zagat Surveys, "It's the economic boom. There's strong domestic demand from young financial wizards for whom price is no object, plus strong international demand from those accustomed to paying twice as much for a meal in Europe or Asia". . . The cover of *Business Week* (May 4) blares, "The New Stock Traders." The story is about a collection of day-traders who are staying home and having fun -- making money by trading options, stocks, bonds, etc. It's exciting, it's "in," it's a product of computers, and it makes for an interesting magazine cover.

* *

They offered **Jerry Seinfeld** $5 million a show to continue, but he turned it down. Why? Here's why. From an interview with Jerry Seinfeld in the *Washington Post:* "I know the whole game, the agent's game, the network game, the producing game, the awards game, the negotiating game. There's a tremendous amount of padding beneath the surface that you don't see. At this level the amounts of money are huge -- huge! And that translates into strong feelings. Because people relate to money and they gauge themselves by money. So you're dealing with primal forces, and the bigger the money, the bigger the forces. You have some very tough, serious businessmen on the other side, the producers and the network people and the parent-company GE people. I deal with all of them separately. That's the stuff nobody knows about. If I were home, watching the show as a fan, I would think, 'Why would he want to stop doing that? That looks like fun. So easy. Just lean against the kitchen counter, say a joke, and everyone laughs.'"

* *

Government trustbusters are pulling their hair out trying to decide, "How big is too big?" For instance, if Staples and Office Depot merge, would that be too big? If they merged, would the price of copy paper and paper clips go higher? They would, said the Justice Dept., and they blocked the merger. Next, is a merger of two big phone companies that will control 39 million local phone customers OK? Sure, fine, says Justice, go ahead and merge. What about giant Microsoft that is using Windows software to corner the Internet browser market? Maybe, maybe not, says Justice, we're mulling it over.

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Jack White, a small but aggressive nationally known San Diego brokerage firm, was sold a month ago. Now the rumor is that Neuberger Berman (a 50-year old firm) will soon go public. Further rumor: Mario Gabelli will also go public. And another rumor -- giant Goldman Sachs is considering going public. What's happening? **(1)** These knowledgeable firms know that this is a hot market and that the money is there -- by the carload. **(2)** These firms may know that when it can't get any better, it usually gets worse. And they are thinking that it can't get any better.

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It is said that the "cruelest tax of all" is **inflation.** Believe it. Inflation is the government's method of quietly and methodically robbing everyone, but particularly the middle class and the poor (the rich can usually hedge against inflation, and moreover, they can afford price increases). Old timers like Richard Russell can relate very personally to inflation. I can relate because I remember 1946 lunches for 60 cents, dinners from $1.25, and five-room apartments on the upper east side of NYC for $165 a month. I can remember new Buicks for $1,800 (circa 1947) and the Dow at 161 (circa 1949). I can remember working five days a week and half days Saturday loading trucks for $18.75 (my first job in 1941). I can remember women's cotton summer dresses at $2.98 and $3.98. I can remember steak at 35 cents a pound and bread at a dime a loaf.

What made me think of all this? Well, a few weeks ago Indianapolis took Peyton Manning as their number one pick in the NFL draft. Indianapolis will probably have to pay Peyton a $10 million signing bonus plus a fat annual salary. Peyton's father, Archie Manning, was the featured quarterback for New Orleans in the early 1962. Archie received a signing bonus of $170,000. His first year's salary was $30,000.

* *

What about the Consumer Price Index (CPI) and the Producer Price Index (PPI)? The problem here is that they only measure the price of commodities and manufactured goods. But today two-thirds of the US Gross Domestic Product consists of **services**, and the CPI and PPI don't measure services. There's a big difference between a rise in the price of copper and auto tires and the overall cost-of-living for the average American. The sad fact is that the cost-of-living continues to go up. It goes up even if the government's CPI doesn't measure taxes or the cost of movie tickets or house-visits by the plumber or the TV repair man.

* *

Back in the days of the Texas oil boom, rich Texans used to talk about "a unit." A rich Texan had two or three "units." A unit was $100 million. Who's the richest man in Texas today? A young college dropout in his 30s named Michael Dell. Dell Computer is a $12 billion company that sells computers over the Internet. Dell has factories in Texas, Ireland and Indonesia. More factories are planned in S. America and China. How much does Dell sell? It sells $4 million worth of computers over the Internet **every day.**

* *

What's the next major trend for **Hollywood movies?** Ready for this? It's World War II movies. Say NYU's film expert, Robert Sklar, Hollywood is returning to the World War II combat film because it has worn out the surrogate "good" wars fought against aliens in everything from Star Wars to Starship Troopers. Says the *Christian Science Monitor,* "It certainly is a good place to go for aggressors we can all agree on. With the Cold War over, the Red Menace has become more an issue of red ink. Taking on the drug cartel is a noble mission, but it's a limited theater. Our Gulf War opponent had its own version of Hitler, but the war itself was a turkey shoot. Vietnam was too divisive. Korea is too oblique, and World War I is ancient history." So what's coming up? Says the *LA Times,* "Get ready for a second invasion of World War II movies as America returns to its days of blood and glory." Already a string of WWII movies are in progress, the first big one being "Saving Private Ryan," which will be a Spielberg flick.

States producer David Leland, "World War II is the major event of the century, and it is still shaping us." **Russell Comment:** I was around before and, happily, after WWII. And I can tell you that the world or at least the US was a different place after the War. Before the war, I wasn't interested in anything outside of college -- girls, literature, art -- my own little world. After the War, I saw myself as a combat veteran, a survivor, still here by the grace of God, a young man who had seen things I never wanted to see, and a believer that man was capable of the very best and the very worst. In 1946, sitting in class in NYU I felt almost embarrassed for the professors who were teaching us. Here we were, guys in our early 20s, guys who had "made it back," listening to professors who were actually a bit frightened of us. After four years away we had come back to the post-WWII world, and it was strange, it was exciting, it was a world that was nothing like the innocent world we had left when we entered the Service.

* *

Am I ready for **Gillette's new Mach3 razor?** I don't think so. I won't buy this triple-blade "miracle," this revelation in shaving, because it will cost $1.60 per blade. Heck, I'd rather grow a beard. And besides, I use knock-offs of Gillette's double-bladed

SensorExcel which I buy from Long's Drugs at about 40 cents a blade. At any rate, Gillette forked out $750 million in order to develop its new Mach3 and the 35 patents which protect it. Shares of Gillette now sell for near 50 times predicted earnings. At that multiple, Mach3 had better sell.

* *

During a bull market all news and most analysis militates in favor of the bulls. In a bear market analysts go back and tell us what was wrong with their bull market analyses. A new Smithers & Co. (London outfit) analysis just released offers food for the bears. The Smithers report notes that under US accounting rules corporations can use options to reward employees, but they don't have to record these options as wage costs. Smithers maintains that on this system the profits of the 100 biggest US corporations are overstated by 42% in 1995 and 57% in '96. Says Smithers, if options were treated as a current expense, the $182 billion that the 100 largest US corporations reported in '96 should have been only $116 billion. **Russell Comment:** In these days of huge emphasis on quarterly earnings and stock prices, the pressure to report juicy earnings is extreme.

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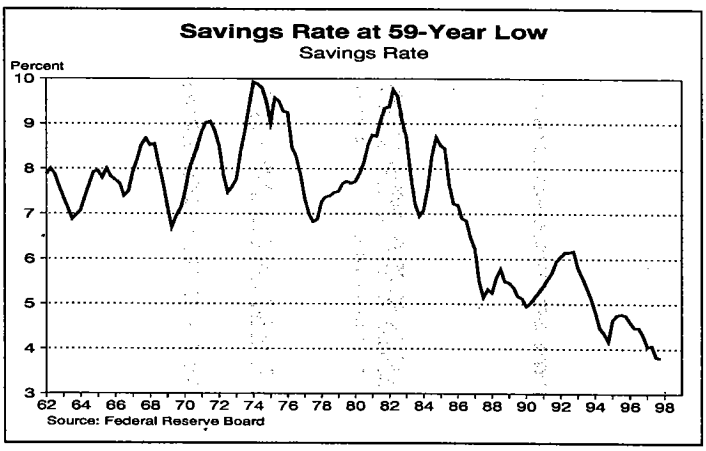
This chart from Merrill Lynch's chart book shows the **US savings rate** at a six-decade low. What's happening? I'm certain that cash savings really are extremely low -- but those who are "saving" are doing it via stocks. People are equating ownership of stocks as a legitimate form of savings. Thus, many amateur investors are placing a certain amount of cash in stocks on an automatic basis every week or month. They don't do this based on anything the market is doing (the Dow could be 9000 or 15000), they do it the way people in the '40s used to buy US savings bonds. This massive amount of money coming into the market at the rate of at least $1.5 billion a day (mostly going into mutual funds) has been one of the driving forces of this bull market. Of course, bears say that this same process in reverse will be the kiss of death during the next bear market.



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The amount of **taxes** that Americans pay continues to be an outrage. The Tax Foundation publishes a lot of statistics including "Tax Freedom Day," the day when the average American stops working for the government and starts working for himself. Here are some figures: In 1940, Tax Freedom Day was March 8. By 1960, it was March 15. In 1970, it was March 26. In 1980, it was March 30. In 1985 (accelerating), it was April 29. In 1990, it was May 1. Here in 1998, it is May 9. So today you work from January 1 to near mid-May just to pay your taxes. Says the Tax Foundation, "Typical American families pay more in taxes than for food, clothing and shelter combined." **Russell Comment:** Between taxes and inflation, Americans over the years have been robbed blind. And what have we got to show for it? BIG, BIG government.

* *

Monster mergers are the trend of the moment, but a few analysts are skeptical. Columnist Gary Hamel (*London Financial Times*) writes, "Wrong Merger, Wrong Logic" and continues, "The merger between Citicorp and Travelers seems to be driven by two tired ideas: bulk and breadth. Both are highly suspect. Citicorp and Travelers are certainly not resource constrained, but where are the big new ideas behind the big new company? The idea that customers want to buy everything from one provider is no more credible than the notion that size trumps every other advantage."

An Op-Ed piece by Jay Jennings in the *NY Times* makes fun of the merger mania. Hey, here's one. Why not merge the US with Japan? In one fell swoop, our trade balance with Japan would be wiped out and think of this -- healthy sushi could take the place of fat-loaded hamburgers. Plus a noodle shop on every US street corner.

PARIS, Nov. 14 (Agence France-Presse) — In what is thought to be the biggest merger of all time, Men and Women have agreed to join forces into one sex, to be called Humanicorp.

The details of the arrangement are still being hammered out, but early negotiations have Men taking breasts. Women have agreed in principle to watch ESPN but have refused to give up self-respect. There are also serious antitrust issues that will need to be resolved.

A spokesman for Men, Bob, said that Men had been trying for years to merge with Women and that this was the culmination of a long-held dream for them. Women were unavailable for comment.

CONCORD, N.H., May 14 (Reuters) — Continuing the wave of consolidation that saw Alabama, Mississippi and Georgia join to form Nationsouth, Vermont and New Hampshire signed a deal today that will combine the two into one state with the motto "Live Free or Whatever."

* *

Internet fever is sweeping the nation. Internet stocks have exploded, some of them doubling during a single trading session. Here's a list of Internet stocks that exploded on April 21 as the frenzy went into high, high gear.

Http://www.speculative.frenzy.com

Some of the Internet-related stocks that soared Tuesday as investors frantically poured money into any issue connected with the sector:

Stock (ticker symbol)	Tues. close	and chng.	Pct. chng.
7th Level (SEVL)	$9.25	+$7.44	+411%
PC Quote (PQT)	4.38	+2.88	+192
Market Guide (MARG)	23.00	+15.06	+190
First Virtual (FVHI)	1.75	+0.91	+108
Audio Book Club (KLB)	11.00	+5.44	+98
Image Entertain. (DISK)	7.50	+3.69	+97
Sharper Image (SHRP)	8.00	+3.69	+86
HomeCom (HCOM)	11.94	+5.44	+84
Alpha Micro. (ALMI)	2.81	+1.00	+55
Navarre (NAVR)	9.50	+3.13	+49
Cybershop (CYSP)	16.50	+4.63	+39

Source: Times research

My guess is that many or even most of these stocks will be history within a few years. But there's no denying that the Internet is becoming the biggest element for change maybe since the dawn of the automobile. First of all, net use is exploding, doubling every three months. Second, the net is worldwide. Third, the net is calculated to bring about enormous changes in the way people think, the way they learn, the way they keep up with what's happening and the way they do business. Advertising and retail and travel are three areas which will be hugely affected by the net. You want to buy a car -- search the net for the car you want at the best price. You want to know where to eat in Dublin, hit the net. Example: I wanted to find a good, authentic Chinese restaurant in San Diego. Presto, we punched out a list of 50 Chinese restaurants with a review of each. We ended up at Mrs. Ho's noodle shop. Delicious, authentic and inexpensive. And we owe it to the net; I had never heard of Mrs. Ho's before, and it's a restaurant five miles from my house. Another effect: the net is taking people away from TV. TV viewers are dropping by the hundreds of thousands in favor of travel on the net. The whole Internet syndrome is in its

infancy. The power of the net is just beginning. There are no geographical boundaries. There are few natural limits. It's a revolution in progress. It will create billions of dollars in profits for some industries. And it will throw other industries into bankruptcy. And wait, wait until three-dimensional viewing on the net arrives, and that's just a matter of time.

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Frenzy Report: The April 22 *WSJ* carried a story about trading. "He was a teenage day-trader, turning a faux $10,000 portfolio into $212,109." This is a story about a kid who indulged in "extreme trading," and won a contest against dozens of other teams, a contest sponsored by CNBC/MCI. Of course, the key here is that the kid wasn't playing with real money. So my only comment is that one of the great difficulties in trading is the **psychological pressures** it places on you when you are dealing with real money. Trading a "theoretical" portfolio vs. a real portfolio is like an amateur high school football player trying to play in the pros. He'd get eaten alive. But the fact that the *WSJ* would even run this story tells me that it's all part of the current stock market frenzy.

* *

What's that old adage, when anything makes the cover of the big national magazines, it's about over. Last week **Time** magazine's cover story was, "The Future of Money, What the Big Mergers Mean." On the same day **Newsweek's** cover story was, "Like It or Not, Married to the Market. More Americans than ever are betting on stocks." The *Newsweek* cover featured a huge bull holding a bouquet of flowers. No question about it, the stock market and making money are the two obsessions in the US today. Here in 1998 there is no common enemy, Communism is dead, China is becoming downright friendly, Saddam is quiet, Clinton has kept his pants on (as far as we know), baseball season is here, and peace and quiet reign -- all except for the numbers flashing on the electronic boards of the various stock exchanges. That's where the excitement is. That's where America's eyes are glued.

WHY WORRY? Question: Why not be fully invested in mutual funds or stocks and not sell until the market starts to tank or until it's obvious that the game's over?

Answer: A great concept, and that system may work marvelously at times, but at other times it doesn't work. First of all, most bull markets end in an extended period of **deterioration.** Group after group may lag, some groups may fall apart, individual stocks may collapse, and by the time you receive the definitive signal to bail out -- you've lost a good percentage of your profits. In fact, strange as it seems, by the time a big bull market finally gives up the ghost, a great many people are actually losing money.

Also, many bull markets give off false or misleading signals. Thus, the rarest phenomenon in this business is the person who buys near the start of a bull market and holds all his stocks until the bitter end. It's just extremely hard to do.

Furthermore, as I said before, each bull market is different. This bull market has been extraordinary in that it has lasted so long, in that it has gone so far, and in that it has suffered so few corrections. Thus, investors have become very enthusiastic and at the same time very complacent, complacent to the point where they consider common stocks synonymous with a "safe investment."

I've been following the markets since the mid-1940s, and very frankly, this is the first time I've ever seen the public equate common stocks with savings. Historically, the stock market has a nasty habit of taking back a goodly portion of what it gives. Therefore, the odds are that the next bear market, when it arrives, will be a devil and a deceptive devil. Furthermore, the next bull market, when it arrives, will probably be nothing like this bull market. Chances are it will be choppy, much shallower, and much shorter in duration.

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Now that Monica has been refused immunity, I'm guessing that she'll be indicted. If so, she'll face a perjury charge. And if Monica's a perjurer (which I believe she is), so is Clinton. It's ain't over 'til it's over.

* *

The following may be of more value to a lot of you than a decade of my Letters. The leading killer of Americans is heart disease. The latest figures show that in 1994, 743,460 Americans died of heart disease (cancer was next on the list at 529,904 deaths). As older subscribers know, I've had a heart attack, angiogram, quintuple by-pass, a stent put in a graft that closed -- the works. When I got tired of being chopped up and sewed up, I started chelation treatments. Since chelation, I've been fine. Even the angina (chest pains), which I used to get almost weekly, has about disappeared. Dozens of my subscribers are now being chelated. Here's a message from a man of God, who obviously was helped by chelation. So why not help yourself -- just hit the Internet for info or write to Friends of Chelation, 255 North El Cielo Rd., #670, Palm Springs, CA 92262.

POST-BULLETIN, ROCHESTER, MN, Thursday, April 2, 1998

Chelation may be option to bypass

By Rev. Leon O. Holtan

The Rev. Leon O. Holtan is a resident of Kasson.

Speaking Out

Chelation, an almost unknown form of preventive medicine, is helping many people who otherwise would face heart bypass surgery.

Chelation dissolves the plaque caused by free radicals (metals and oxygen) that cling to the walls of our arteries and capillaries, restricting the flow of blood and causing heart attacks, strokes and other health problems.

I am writing to tell what chelation has done for me. I suffered a heart attack in 1990. An angiogram revealed extensive blockages and quadruple bypass surgery followed. Two years and five months later, another angiogram showed that my arteries were again so severely blocked that the surgery needed to be repeated. However, I had heard of chelation and decided to try it before submitting to surgery. I started with three treatments per week, then two per week, then one per week, and now one treatment every four to six weeks for maintenance.

Now, 5½ years later, I have not had the second bypass surgery. I am active and in relatively good health at 81 years of age.

One year ago, I was given the treadmill test, a run that lasted nine minutes. The technicians who operated the machine told me that I had done 150 percent of what was expected from a man my age.

A man-made amino acid, ethylene diamine tetraacetic (commonly known as EDTA), is the chemical agent used in chelation therapy. Developed in 1935, it was used first commercially, but for human health in the past four decades.

Chelation therapy is administered intravenously, prescribed by and under the supervision of a physician. The EDTA in solution bonds with the metals in the body and carries them away in the urine. The result is increased flow of blood and better health.

A complete medical history must be obtained and a thorough physical examination given before treatment is administered. EDTA chelation therapy, in conjunction with lifestyle and dietary changes, and with specialized nutritional supplements, is an option to heart attack, bypass surgery, amputation, stroke or senility. The risk of side effects, when properly administered, is less than one in 10,000.

The knowledge and use of chelation is increasing. I believe that I was the first person in this area to learn of chelation and use it. Now, some 40 people have heard of the benefits I received and are using it with positive results.

More than 1,200 medical doctors are practicing chelationists, of which approximately one half are in the United States.

Commercial advertising is not used. The best publicity is "word of mouth" — people such as me who have been helped and healed tell others who are in need.

Chelation is like the Gospel. It needs to be told and believed and applied. It is effective! It works!

So in answer to the question, "Why don't we just load up 100% and hold 'em until it's all over?" To do that you have to have the right kind of bull market. And the right kind of bull market may come along once in a generation.

Current Situation: The bull is still in the Investment Position box. He's been there so long I had to change bulls because I got bored looking at the previous bull. The Dow and the S&P 500 and my PTI have been surging higher but the Transports and the advance-decline have been lagging.

There's also been quite a bit of deterioration in a number of sectors. Is this just a matter of catching up, or have some sectors topped out? We can't know yet. We do know that if the Industrials and Transports can break out to new highs, then the green light will be on.

What happens if the Dow and the S&P rise to new highs without the Transports and the A-D ratio? It's happened before in this bull market, and in due time the Transports and the A-D ratio did confirm on the upside. Won't that happen again? Can't tell. If we knew for certain then investing would be a guaranteed, sure-thing certainty.

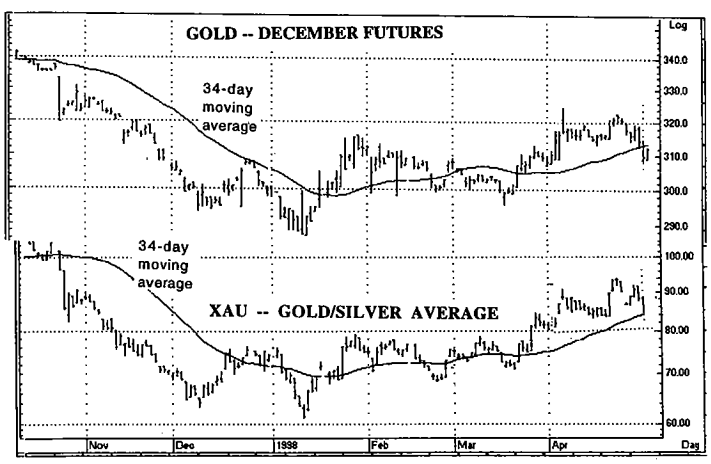
Conclusion: According to classic Dow Theory, it's a bull market until proved otherwise. So far, we've seen no "otherwise," so we must accept the thesis that the bull market is still in force. But old-timers can't seem to get rid of those nagging little suspicions, that "show me" psychology.

GOLD: The yellow metal is testing the patience of gold-philes. You might even say that gold's action has been a teaser. Looking at the chart, we see that gold has been holding (but barely) above its 34-day moving average. And yes, each low since mid-January has been above the preceding low. It's a hopeful pattern, with the next upside target (we're looking at the December futures) being the 322.2 closing high of April 23.

Turning to the widely-watched XAU, the Phila. Gold/Silver Average, we see pretty much the same action as gold. XAU is holding above its 34-day MA, and like gold, the MA is rising, which is a good sign. The upside target for XAU is the April 23 closing high of 93.20. Patience, patience, patience.

Best rumor for gold-philes -- the rumor is that the euro will have some kind of gold backing. And that makes sense since we know that Europeans want a currency that will **compete with the dollar.** And make no mistake about it, the Europeans most definitely want a currency that will compete against the "mighty dollar." The mighty dollar, in case you forgot, is a paper currency with no backing behind it except the US government's statement that "it trusts in God."

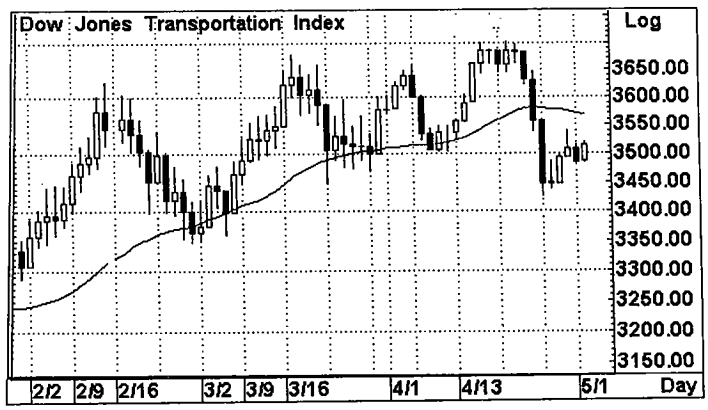
If you want to compete with a fiat or paper currency, the best way is to do it with a better currency. A gold-backed currency is a better currency than a fiat currency, so if the politicians and economists behind the euro have any brains, they'll back the euro with a portion of gold. Polls show that 60% of the German population are against the euro and don't want to give up the D-mark. Furthermore, the French love gold, always have. So what better advertisement for the skeptical Germans and the gold-loving French than that the new euro would be gold-backed? Makes sense, doesn't it? Just too bad, Russell, that you're not running the show.



LATE NOTES: Technically, the best thing going for this market is the strength in the bonds (although, to be honest, the bonds have simply moved back into the trading range which they have been locked in all year).

The biggest technical problem for the stock market is the D-J Transportation Average, and I have included a chart of the Transports showing that the Transports have barely participated in the latest rally, and you can see that the Transports are actually still below their 34-day moving average.

NEXT MAILING: May 20, 1998



Bellwether: Ever since I started in this business I've heard investors talking about and searching for the perfect market bellwether, a bellwether being the single stock which will tell us which way the whole market is heading. My conclusion -- there isn't any perfect bellwether. And fashions change. Back in the '50s, US Steel was considered the bellwether. Then it was General Motors, and after that it was IBM. Today, if there is one stock that is watched above all others, it's probably Microsoft.

MSFT deserves watching at this time. As you can see, the stock is looking toppy, and it's sitting right on its 34-day MA. It also has a "head-and-shoulders" top look with support at 87. Any close below 87 could send MSFT down to test the 80 area. The market would not take kindly to MSFT breaking down.